

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on December 18, 2007 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Gus Escher, Public Member (Chairing as Vice Chairman); Moshe Cohen, Public Member; Ulysses Lee, Public Member (via telephone); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Eileen Stokley, Designee of the Commissioner of Human Services; and Edward Tetelman, Designee of the Commissioner of Health and Senior Services.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Jim VanWart, Steve Fillebrown, Suzanne Walton, Carole Conover, Susan Tonry, Lou George, Terry Seremeta, Bill McLaughlin, Mae Jeffries-Grant, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Kevin Stagg, Christopher Cagnassola, Christian Health Care Center; Lou Perillo, The Community Health Group; Bob Glenning, Maria Pepe, Hackensack University Medical Center; John Draikiwicz, Esq., Gibbons P.C.; Kari Fazio, Wachovia; Scott Kobler, McCarter & English; Gary Walsh, Maryann Kicenuik, Windels Marx Lane & Mittendorf; Sharon Price-Cates, Governor's Authorities Unit; and, Cliff Rones, Deputy Attorney General.

## ***CALL TO ORDER***

Mr. Escher called the meeting to order at 10:10 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 24, 2007 Authority meeting. Complying with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and the *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

## ***APPROVAL OF MINUTES***

### ***November 15, 2007 Authority Meeting***

Minutes for the Authority's November 15, 2007 Authority meeting were distributed for review and approval. Dr. Cohen asked that the minutes be revised to reflect that the Authority's Director's and Officer Liability Insurance broker agreed to get information on rates for a policy higher than \$20 million. Mr. Tetelman offered a motion to approve the minutes with the requested addition; Ms. Kralik seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Lee voted yes, Ms. Kralik voted yes, Ms. Stokley voted yes, and Mr. Tetelman voted yes. The motion carried.

## ***BOND SALE REPORTS***

Dennis Hancock reported that, earlier this month, the Authority priced issues for St. Peter's University Hospital ("St. Peter's") and for Meridian Health System ("Meridian"). These were the first pricings since the AtlantiCare Regional Medical Center's financing in May.

The St. Peter's issue was approved for an amount not to exceed \$145 million, however, as the pricing approached it became apparent that the market for tax-exempt bonds and the interest rates available for escrow securities were diverging, and the benefits that St. Peter's wanted to get from refunding most of its outstanding debt could not be achieved. As a result, only a small portion of the refunding was included in the sizing and the bond issue was finalized at a little over \$65 million.

The bonds were rated "Baa2" by Moody's and "BBB-" by S&P. These rating levels limit interest from retail investors and mean that the deal is generally driven by mutual funds willing to accept riskier credits at higher yields. In this environment, the lower bond size made the transaction more attractive and easier to complete. The senior manager arranged for an investor call which gave St. Peter's the opportunity to present its story directly to research analysts from various mutual fund buyers and gave those buyers the opportunity to seek answers to lingering questions. The senior manager received word from a few of the potential purchasers that the borrower did not pass their credit standards. This added to the pricing concerns by further limiting the universe of investors.

According to Mr. Hancock, after analyzing the market data and talking to those investors that continued to show interest, the senior manager proposed a scale for an order period on December 5<sup>th</sup>. Sufficient orders were received at the suggested levels to encourage the management team to offer to purchase the bonds at yields ranging from 4.7% for the 2013 maturity to 5.8% for the 2037 maturity. The true interest cost to the borrower is 5.84%. The closing is scheduled for December 18, 2007.

The second issue priced was for Meridian and had different but also difficult market considerations. The Meridian bonds are insured by Assured Guaranty carrying "AAA" ratings. This issue had received approval at a limit of \$258 million and the final size, a little over \$242 million, was structured as five tranches of auction rate securities resetting every seven days.

Although it was set up to be a well-rated and attractive issue, difficulties arose when the auction rate market began to show some weakness. Investors that had historically helped this structure to become a staple in the industry decided that interest rate movements and liquidity concerns were enough to make them seek other investment opportunities. It is impossible to tell whether this will have temporary consequences or if the investors will stay away for an extended period. Meridian was faced with a decision to delay and change structures or to continue and hope that sufficient investors were available.

Mr. Hancock stated that, because the documents are prepared to allow for the transition to other structures after the initial issuance and Meridian wanted to be able to get reimbursed for prior project expenditures before the end of the fiscal year, they decided to move forward using the auction rate structure. UBS, the underwriter for the issue, sought out investors and was able to take orders for a little over \$102 million of the bonds. Based on those orders, they offered to underwrite the entire issue at an initial interest rate level of 4.0%. The first auction for the bonds will begin on December 24<sup>th</sup>. This issue closed on December 13<sup>th</sup>.

Dr. Cohen noted that, over the summer, he mentioned that he was concerned about the impact of the market's credit and liquidity crisis on Authority transactions and, hearing about

Meridian's difficulty in marketing the bonds, he feared that he was correct with this concern. He requested that staff put together a report, perhaps for the January meeting, demonstrating the potential, and thus far actual, ramifications of the market's struggling liquidity and credit situation on the Authority. Specifically, he would like the report to consider the following questions:

- Will the Authority's business be affected by the market crisis?
- If yes, how will it be affected?
- What is the Authority doing in response?
- Are the hospitals impacted by the market crisis?
- If yes, in what way?
- What can the Authority do to help the hospitals on this matter?

Mr. Escher agreed that he would also appreciate this type of report, noting that he is surprised that a \$200 million "AAA" credit would have any difficulty being sold. Mr. Hancock replied that the sale of the bonds had some difficulty for a confluence of reasons including liquidity concerns. He did add that on the day of the sale the underwriter, UBS, received an infusion of \$10 billion from overseas in response to the UBS losses possibly related to the sub-prime mortgage crisis. Mr. Hancock stated that staff would create report in response to Dr. Cohen's questions.

Mr. Tetelman asked if Meridian's bond sale difficulties were a surprise to staff. Mr. Hancock replied that UBS, which has done a number of auction rate bond transactions in the past, sells primarily to the retail market. In the recent months, auction rate securities in this market have been slow, therefore, it was not totally unexpected that Meridian could have difficulty placing all of the bonds during a short order period. For that reason, the Authority's bond documents are prepared to permit conversions to other modes. Therefore, with the passage of time, if the market fails to settle, Meridian may transfer the bonds to a Variable Rate Demand Note, which has been favorable lately due to the use of a put option, or even to a fixed rate structure if it feels that the auction rate structure is not the best option.

Dr. Cohen asked if the Federal Housing Administration ("FHA") is still in the market, to which Mr. Hancock noted that FHA does still insure bonds, adding that the Authority has a large project on its forward calendar to issue bonds for a new facility and that borrower is looking to apply for FHA insurance. Dr. Cohen suggested that there may be an increased interest in FHA-insured transactions, since more New Jersey hospitals could be considered challenging credits.

### ***TEFRA HEARING & EQUIPMENT REVENUE NOTE PROGRAM SALE Christian Health Care Center***

Mr. Escher announced that, as required by the Tax Reform Act of 1986, the following portion of today's meeting will be considered a public hearing in connection with a proposed Equipment Revenue Note Program transaction on behalf of Christian Health Care Center.

Project Manager Suzanne Walton introduced from Christian Health Care Center Kevin Stagg, Vice President of Finance and Chief Financial Officer, and Christopher Cagnassola, Controller. Ms. Walton then noted that that the transaction summary sheet and Note Resolution that were included in the Members' mailing package in advance of the meeting had been changed to reflect a revised term for the laundry equipment, furniture and energy related equipment. The repayment schedule for these assets will now be structured based on a five-year

term, ten-year amortization. The computer equipment will remain as a straight five-year amortization.

Ms. Walton explained that Christian Health Care Center, located in Wyckoff, provides a continuum of elder care and mental health services including skilled nursing care, residential care, assisted living, inpatient and outpatient mental health care and medical and social day care. Today she would be seeking the Members' approval of the sale of an Equipment Revenue Note on behalf of Christian Health Care Center in the aggregate principal amount of \$3.5 million dollars.

The proceeds of the Series 2008 Note will be used to finance the purchase and installation of furniture and equipment for use by the Center, including: computer equipment and software, furniture, laundry equipment and improvements to laundry facilities, kitchen appliances, and energy generation and management equipment. Proceeds would also pay certain costs incidental to the issuance and sale of the Note.

The Note will be privately placed with Banc of America Public Capital Corp and will be secured by a first lien on the equipment being financed. The term sheet offered by Banc of America establishes the interest rate at closing based on a formula using the five-year Treasury swap rate, and requires the Note to be repaid in fixed, consecutive monthly installments of principal and interest over a 60-month period. Ms. Walton stated that, if the rate was being set today, the interest rate would be approximately 3.93%. Banc of America will provide the Authority with a traveling investor letter with respect to the issuance and sale of the Note. The Note will be unrated.

#### ***NOTE RESOLUTION***

John Draikiwicz, Esq., the transaction's bond counsel from Gibbons P.C., stated that the Note Resolution authorizes the issuance of the Series 2008 Note prior to the close of business on or prior to April 23, 2008 as a single or multiple Notes in fully registered form in the aggregate amount of \$3,500,000. The Note(s) will be issued in a fixed rate mode, at the rate equal to sixty-five percent (65%) of the sum of the five (5) year United States Treasury Swap Rate plus 156 basis points computed on the basis of a 360-day year of 12 30-day months, and, if not sooner paid shall mature on the date that is not later than sixty (60) months following the date of issuance thereof, and with respect to information technology equipment, shall be amortized over five years, and non-information technology equipment, shall be amortized over ten years with a balloon payment in the sixtieth month for the balance.

The Note Resolution approves the form of the Note, the Master Financing Agreement Terms, including Schedule 1 which incorporates the terms of this loan and an Escrow Agreement. In addition, the Resolution states that the revenues derived by the Authority pursuant to the Master Financing Agreement shall be paid directly to the Noteholder and applied to the payment of principal and interest on the Note when due. Finally, the Note Resolution authorizes and directs the Authorized Officers to execute and deliver such other documents and to take such other action as may be necessary or appropriate in order to effectuate the execution and delivery of the Agreement and the issuance and sale of the Note.

Mr. Escher noted that Members and staff had expressed displeasure in the past towards traveling investor letters. He asked why one appeared for this transaction, wondering if Banc of America had plans to sell the bonds rather than hold them. Ms. Walton stated that when Banc of America became involved with the Authority's Equipment Revenue Note Program, it expressed an interest in maintaining an ongoing relationship with the Authority. The Authority, of course, expressed its desire that the bank hold onto the bonds itself and not sell them. Banc of America

understood and agreed that such was its intention. Still, as a safeguard, the Authority wanted to include the traveling investor letter just in case the bank is unable to hold onto the bonds themselves.

Mr. Escher then asked what type of computers will be purchased with the proceeds. Mr. Stagg replied that Christian Health Care Center will be upgrading their servers and purchasing new software. The bulk of the equipment purchase, he added, is comprised of a new HVAC system, and the borrower expects the cost of the equipment to be offset by lower energy costs as a result of the new HVAC.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Note Resolution. Mr. Tetelman moved that the document be approved. Dr. Cohen seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. HH-80**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the Note Resolution entitled, "A RESOLUTION PROVIDING FOR THE ISSUANCE OF A NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY EQUIPMENT REVENUE NOTE, CHRISTIAN HEALTH CARE CENTER, SERIES 2008.

Mr. Escher wished them luck with the sale and then closed the public hearing required by the Tax Reform Act of 1986 on behalf of Christian Health Care Center.

#### ***INFORMATIONAL PRESENTATION***

##### ***Hackensack University Medical Center***

Lou George began by introducing from Hackensack University Medical Center ("HUMC") Bob Glenning, Executive Vice President and Chief Financial Officer, and Maria Pepe, Controller. He reported that staff is in the process of structuring a financing on behalf of HUMC that, together with refundings, could be as high as \$365 million. The new money component of approximately \$110 million will be used to construct, furnish and equip a 155,000-square foot cancer center and a 1000-space parking garage. The refunding components that will be wrapped into the financing, if economically viable, consist of a portion of approximately \$12.5 million of HUMC's 1997 financing issued through the EDA, all of their Series 1998 Authority bonds of which \$142 million is outstanding, and all of their Series 2000 Authority bonds of which \$82 million is outstanding.

Mr. George reported that rating and insurer packages are being prepared and will be distributed shortly. HUMC currently has ratings of "A3" from Moody's and "A-" from Fitch.

HUMC is interested in pursuing an auction rate transaction. Auction rate securities generally provide one of the lowest costs of capital, and many borrowers have issued auction rate securities and immediately entered into a synthetic swap in order to fix their interest cost. However, the auction rate market is currently undergoing some volatility primarily because of liquidity concerns. Given this volatility HUMC asked if the Authority could provide a flexible structure that would allow the hospital to switch to a fixed rate or (a letter of credit backed) variable rate financing. In order to accommodate their request, staff anticipates using a bond resolution that provides various financing options. The bond documents for each option will be available when staff requests the Members' approval for a contingent bond sale.

HUMC prepared projections to support its ability to pay debt service for the project. Mr. George stated that Sue Tonry would review these projections with the Members today, after which Bob Glenning would provide a more detailed overview of the project itself and answer any questions about the project, the projections, and/or the financing.

At this point, Mr. George turned the floor over to Ms. Tonry who then reported that the projections show: debt service coverage ratio ranges from 2.72 to 3.65 times coverage and growing over the projection period; cash on hand growing from 143 days to 171 days; receivables remaining steady at 56 days; days in accounts payable remaining between 39 to 41 days; operating margins ranging from 2.2% to 3.1%; and profit margins growing steadily from 3.7% in 2008 to 4.7% in 2011. In short, the projections predict solid financial performance with steady growth throughout the projection period.

Ms. Tonry noted that the projections anticipate that the project will come online in 2011. She then identified the key assumptions used for the projections. In terms of volume, the projections assume a total admissions increase of 3.3% in 2008, growing at a rate of 2% for the following years. The initial increase assumes additional admissions from the closure of Pascack Valley Hospital, too, reflecting an obstetrics growth of 10.4% and a newborn admissions growth of 7.2% through 2011. Length of stay is assumed to remain at 4.6 days throughout the projection period, and outpatient growth is predicted to average between 2% and 3% through 2010, and then increase in 2011 as the project comes on line. Oncology and Radiation oncology show the largest growth assumption of 9% in 2011.

In terms of expenses, overall expenses (excluding interest and depreciation) are predicted to jump by 5.3% in 2008, and then increase 4% over projection period. Salary increases of 4% per year, after an initial increase of 5.4% in 2008, are assumed due to the expected hiring of an additional 50 full-time employees in 2008 and fringe benefits are assumed to remain at 24% of salaries throughout the projection period. The projections also assume that supplies and other expenses will increase by 4% per year subsequent to the 2008 budget for a 5% increase related to added volume. Full time employees are expected to remain at the current 2008 budgeted level of 6,420 throughout the projection period.

Lastly, Ms. Tonry reported on the revenue assumptions of the projections. Total revenues are assumed to increase 4% to 5% each year during the projection period, while Medicare and Medicaid are both assumed to increase by 2% per year. Case mix and payer mix is projected to remain consistent with current levels, and investment income is assumed to grow by 7% per year. She noted that most of HUMC's major managed care and HMO rate increases are already contracted through 2009 or 2010. Ms. Tonry finished her presentation by noting that the projections are conservative and are consistent with HUMC numbers for the past few years. Mr. Escher expressed surprise at the large number of full-time employees.

Ms. Tonry then turned the floor over to Mr. Glenning from HUMC to present to the Members some additional detail on the project itself. Mr. Glenning reported happily that, regarding the large number of employees, HUMC employs a large number of families which is a testament to it being an enjoyable place to work.

Mr. Glenning reported that HUMC intends to construct a four floor, LEED (Leadership in Energy and Environmental Design) certified, approximately 155,000 gross square foot ambulatory care building at a site at the northeast corner of Atlantic and Second Streets in Hackensack to house a comprehensive array of outpatient oncology services. Mr. Glenning then presented a large rendering of HUMC's design for a new facility.

Noting that HUMC has experienced significant volume growth over the past five years, Mr. Glenning stated that HUMC enjoys a patient approval rating of 92%, which is only the top 13% nationally. The primary point of dissatisfaction lies in a shortfall of space and a feeling of patient quarters being cramped. The new facility will address that concern.

According to Mr. Glenning, construction of the building will also feature pedestrian bridge connections to the main hospital facilities through a 960-space parking garage to be concurrently erected on an approximately 2.6 acre site on the adjacent block at the northwest corner of the same intersection. Construction is anticipated to begin in early 2008. The Cancer Center and its related bridges are anticipated to take about 26 months to complete and will have a construction cost of about \$68 million.

Incorporating diagnostic facilities, chemotherapy preparation and infusion areas, and pharmacy and laboratory resources, as well as a full spectrum of radiation oncology services, the facility should well serve the expanding population of patients who require high quality cancer care in an environmentally welcoming and comfortable setting. The building will also include space for complementary programs like yoga, nutritional cooking classes and a patient oriented library and resource center. Mr. Glenning noted that, with cancer care, a large number of patients are required to visit the hospital once a week to sit in a room for a day and receive treatment. The goal of this project is to create a more comfortable environment and experience for these patients. Mr. Glenning also complimented the top name physicians and physician group supporting the project.

All project costs, inclusive of fees, equipment and a small contingency are expected to total about \$118 million.

Mr. Tetelman asked if HUMC is associated with the Cancer Institute, to which Mr. Glenning admitted that he was unsure, noting that he has only been with HUMC for seven months. He did state that the Medical Center is looking to pursue National Cancer Institute certification. Then, in response to a question from Mr. Tetelman, he clarified where on the HUMC campus the new facility will be located.

Mr. Escher commended HUMC for the interesting and dynamic campus and layout of facilities, and then he asked if the refundings proposed were practical. Mr. George noted that, as of today, they are right on the cusp of being financially beneficial, however, the final determination relies on the structure of the bond issue. Dr. Cohen asked for clarification on the benefit of the refinancing, to which Mr. Glenning noted that HUMC would only go forward with the refinancing portion of the issue if it would yield a lower cost. If there would be no savings from a refunding, HUMC will only issue new money. Ms. Pepe, too, added that at this point it seems that there may not be a savings associated with refunding the 1998 bonds but there may be for the 2000 bonds. If that remains to be the case, HUMC will only refund the bonds that would benefit from a lower rate. That determination will be made at the time of marketing the bonds.

Mr. Hancock added that it can also be difficult to see where a refunding would provide savings because sometimes, a borrower will refinance and then enter into a swap variable to a fixed rate, for example, which would potentially appear as an added cost. The savings then would depend on both the variable rate market and the swap market.

Mr. Tetelman asked when the bonds are expected to be presented for a contingent sale, to which Mr. Glenning reported that HUMC would like to receive sale approval no later than February. Mr. Hancock noted that this would mean the bonds would likely go to market in March. These presentations were for informational purposes only; no action was required of the Members.

## ***NEGOTIATED SALE REQUEST***

### ***Princeton Healthcare System***

Mark Hopkins reported that Princeton HealthCare System (“Princeton”) signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing in the approximate amount of \$303 million. The proceeds of the financing will fund the relocation of Princeton’s University Medical Center at Princeton, including the construction and equipping a replacement 269-bed hospital and parking facility in Plainsboro, as well as miscellaneous capital expenditures and any capitalized interest on the bonds. Proceeds would also refinance interim taxable loans, which were used to defease Princeton’s 1998 Authority bonds and finance the acquisition of the replacement hospital’s site. Finally, proceeds will also cover the cost of issuance and the funding of a debt service reserve fund.

Princeton has estimated that the total cost of the project will be approximately \$495 million. The difference between the project cost and total bond proceeds will be funded from an equity contribution that Princeton has available from cash on hand, philanthropic contributions and the sale of assets.

Mr. Hopkins described Princeton as a New Jersey not-for-profit corporation which currently operates an academic medical center in downtown Princeton. The Authority has issued several series of bonds on behalf of Princeton, all of which were defeased or are no longer outstanding.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, Princeton generated excess revenues over expenses of approximately \$12.9 million for 2006 and \$10.1 million for 2005. Unaudited information for Princeton through September 2007 shows excess revenues over expenses of approximately \$12 million, continuing its recent history of positive results of operations.

Princeton asks that the Authority permit the use of a negotiated sale based on: (i) the sale of a complex or poor credit; (ii) the sale of a complex financing structure including those transactions that involve the simultaneous sale of more than one series with each series structured differently; (iii) volatile market conditions; (iv) large issue size; and (v) the expected use of variable rate debt. These reasons are listed justifications for the use of a negotiated sale under the Authority’s policy regarding Executive Order #26. Therefore, staff recommends the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins added that, after performing a competitive process, Princeton has selected Merrill Lynch as Senior Managing Underwriter for the bonds.

Dr. Cohen noted that some of the information stated that while some of Princeton’s approvals for the new facility were in place, others had yet to be obtained. He asked if they requested a waiver for these approvals. Staff replied that Princeton had not requested a waiver as of yet, since, at this point in the process, the Authority does not require a waiver. Staff pointed out that, at this time, Princeton is only requesting the Members’ approval for staff to begin working on this project as an Authority financing under the negotiated sale format. Mr. Hancock stated that the next steps would be for staff to then meet with Princeton to determine where they are with these approvals, identify any hurdles and whether or not they are of Princeton’s own doing, and then decide if there is a reason for Princeton to come to a future Authority meeting with a formal request for a waiver of any of the approvals that may cause a delay. At this point,



no request has been made. Dr. Cohen requested that staff update the Members on the status of these approvals at Princeton's informational presentation.

Mr. Tetelman moved to adopt the resolution approving the pursuit of a negotiated sale on behalf of Princeton Healthcare System, and the forwarding of a copy of the justification in support of said resolution to the State Treasurer. Ms. Stokley seconded. The vote was unanimous and the motion carried.

## **AB RESOLUTION NO. HH-81**

*(attached)*

### ***AMENDMENT TO LOAN AGREEMENT***

#### ***The Community Health Group***

Suzanne Tonry began by introducing Scott Kobler from McCarter and English, hospital counsel representing Solaris Health System and Mariann Kicenuik from Windels Marx Lane & Mittendorf serving as bond counsel on this issue. Solaris Health System is the parent company of the Community Hospital Group, Inc., otherwise known as JFK Medical Center (the "Hospital"). JFK submitted a request for an amendment to the Insurance Covenant in their Series 2005A-3 Loan Agreement.

In 1987, the hospital created Atlantic Insurance Exchange Ltd., a captive insurance company domiciled in Bermuda, to manage its general and medical malpractice insurance. Section 5.7 of the loan agreement describes the requirement that the captive insurance company, on an annual basis, obtain a Qualified Insurance Rating from an insurance rating agency beginning in 2007. The hospital would like to amend the loan agreement to require only certifications regarding the adequacy of its captive insurance from management and its professionals including the insurance consultant, actuary, accountants and legal counsel.

Ms. Tonry stated that the request is consistent with the resolution passed by the Authority in June of this year eliminating the requirement for an A.M. Best rating on a borrower's captive insurance company. The amendment to the loan agreement is required in this instance because language requiring a rating is specifically contained in the loan agreement.

Because the bonds are secured by a letter of credit provided by Wachovia and a trust indenture with Bank of New York, it is required that both parties consent to any amendment to the loan agreement. Both parties provided written consent upon review of the draft amendment and draft opinion of bond counsel.

In reliance on bond counsel's opinion that this amendment does not adversely affect the exclusion from gross income of interest on the bonds for federal income tax purposes, together with the consent of Wachovia Bank as Letter of Credit Provider, and the Bank of New York as Trustee, staff recommended approving the amendment to The Community Hospital Group's 2005A-3 Loan Agreement.

In summary, Mr. Escher stated that the amendment proposed for this loan agreement is really just a change to bring it in line with the Authority's June 2007 policy change to no longer require an A.M. Best rating, adding that while several borrowers are subject to the policy change, only a few had the outdated policy in writing in the bond documents. Those will need to be amended, which is what is being request here on behalf of The Community Hospital Group. Ms. Tonry concurred.

Mr. Lee asked if the Authority had adopted a new policy to monitor self-insurance and captive entities as of yet, to which Ms. Tonry replied that staff is working on the final aspects of the recommendation for a new policy, the likes of which are expected to be similar to the requirements proposed in this amendment. She noted that this amendment incorporates language that allows the Authority to change the requirements/policy at the sole discretion of the Authority but with the Bank's consent.

Ms. Kralik asked for clarification of the new requirements in the amendment, to which Ms. Tonry confirmed that the borrower would be required to annually report to the Authority certifications regarding the adequacy of its captive insurance from management and its professionals including the insurance consultant, actuary, accountants and legal counsel. These reports would be sent to Ms. Tonry, as Assistant Director of Research, Investor Relations and Compliance.

Mr. Tetelman asked if the captive is currently fully funded, to which Ms. Tonry replied that it is currently funded in accordance with the requirements of the captive's domicile.

Mr. Tetelman moved to approve the requested amendment; Mr. Escher seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. HH-82**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the "AMENDMENT TO LOAN AGREEMENT DATED AS OF DECEMBER 1, 2005 Between NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY And THE COMMUNITY HOSPITAL GROUP, INC. RELATING TO THE \$18,000,000 NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – THE COMMUNITY HOSPITAL GROUP, INC. PROJECT) SERIES 2005A-3 DATED AS OF DECEMBER 18, 2007." *(attached)*

#### ***DERIVATIVES POLICY***

Mr. Hancock reminded the Members that, at the Authority's June retreat, staff identified some concerns about derivative contracts that borrowers were entering into and the affect that those contracts had on Authority bondholders. After hearing from industry representatives, the Authority directed staff to form a working group to identify the issues and suggest how the Authority could minimize its concerns without eliminating derivative products as a legitimate capital and investment tool for borrowers.

In addition to Authority staff, the working group included two borrowers, two underwriters, a lawyer (with bond counsel, underwriter counsel and borrower counsel experience), a swap advisor, and a representative of the New Jersey Hospital Association. The group met at the Authority offices to discuss the issues and set up the groundwork for future interaction.

Based on these discussions and acknowledging that any recommendation would need to consider the needs of each of the parties, staff prepared a draft of policy considerations and distributed it to the working group. After receiving several sets of comments and redrafting, the working group rejoined by conference phone to raise issues about the latest draft. The proposed derivative policy was prepared after considering the concerns of all the members of the working group, and although not exactly what each of the members might believe is the ideal from their individual perspective, it represents a fair policy position for all parties.

The Authority's two most significant aims in creating the policy were: 1) to limit, in some way, the ability to enter into derivative contracts that are not directly associated with a bond issue for the purpose of reducing interest cost related to that bond issue, and 2) to ensure that parity security positions and/or collateral positions to counterparties is only provided when a borrower is financially able to do so without harming the security position of bondholders. Both of these areas were dealt with by providing specific incurrence tests that borrowers would have to meet under certain circumstances.

The proposed policy, which would include all of the Derivative Policy Considerations (*attached*) recommended by staff, also includes reporting and disclosure requirements. In addition, implementing the proposed policy on unenhanced public issues may require additional work on some of the Authority's standard definitions; staff is prepared to work with counsel to make the appropriate adjustments.

On behalf of staff, Mr. Hancock recommended that the Members consider adopting all of the proposed Derivative Policy Considerations as the Authority's new derivative policy going forward, effective immediately after the ten-day veto period for this meeting's minutes.

In response to a request from Mr. Tetelman, Mr. Hancock then went through the proposed policy (which is attached in detail) as follows:

- The policy includes a definition of derivative products.
- The policy sets forth certain requirements for derivative contracts; this section sets the guidelines for the type of derivative products a borrower may use, stating the Authority's support of hedging products and the Authority's caution against speculative investment products.
- The policy outlines mandated derivative contract security provisions for Authority borrowers, specifying incurrence tests that must be passed before a borrower can give a lien on parity to the bondholders or before a borrower can collateralize obligations.
- The policy obliges the borrower to certain derivative reporting requirements in order to ensure that the Authority is notified of all derivative agreements outstanding at the time of a bond issuance and to ensure that the Authority has been informed of the borrower's derivative policy, if one exists.

Dr. Cohen asked about the feasibility of getting frequent current mark-to-market information from the borrowers on their derivative products, to which Mr. Hancock noted that he would expect that many borrowers hire financial firms to monitor their derivative products, likely with thresholds at which the advisor must contact the borrower to inform them of such movement. Authority transactions currently require quarterly financial reports and the borrowers will be determining the value of their derivative products at that time at least.

Dr. Cohen asked that the Members be informed if staff finds anything concerning regarding derivative products in those quarterly reports. Mr. Hancock agreed that staff would inform the Members of any such event. He noted that staff can also present, going forward, information on outstanding derivative products in a borrower's informational presentation for a bond transaction. Currently, the meeting materials for these presentations include a listing of outstanding indebtedness; staff will now add outstanding derivatives to that material.

Mr. Escher concurred that he would appreciate a snapshot of a borrower's derivative products.

Dr. Cohen asked if there are any tax reporting requirements for a derivative product and asked if these requirements are different for a tax-exempt entity. Mr. Hancock, who noted that he is not fully versed in this area, stated that he can confirm that the Internal Revenue Service

requires an identification certificate every time a derivative product is entered into. Dr. Cohen suggested that staff should be sure that there are no IRS compliance issues with which to be concerned. Gary Walsh, a bond counsel attorney from Windels Marx Lane & Mittendorf, stated that, when a swap is identified, the borrower must file an *Information Return for Tax-Exempt Private Activity Bond Issues* (Form 8038) which divulges the entire swap to the IRS. This may satisfy a tax-exempt borrower's filing requirement. He also noted that the annual reporting of the *Return of Organization Exempt From Income Tax* to the IRS (Form 990) may include a report on derivatives on an ongoing basis.

Mr. Tetelman stated that he is concerned about disclosure to the bondholders who are secured on parity with a counterparty. Mr. Hancock explained that the Authority's bond documents do permit parity indebtedness upon passage of an incurrence test. The requirements of the proposed derivative policy, if incorporated, would be consistent with those permissions.

Mr. Hancock added that while there are many aspects of derivatives that resemble indebtedness, there are also many aspects that resemble investment.

Mr. Hancock also noted that staff recommends that the above proposed covenants only be considered for inclusion in Authority Loan Agreements for unenhanced bond issues that are placed through the public markets. Enhancers or private placement purchasers would impose their own requirements concerning derivatives.

Mr. Escher stated that while he is impressed with the policy and the amount of work that went into it, the policy proposal contains so much information and so many ideas that he would like to table the vote to approve the policy in order to give himself and the other Members some time to process it. He asked if there is any risk to waiting. Mr. Hancock noted that there is no risk, as the next two issues on the Authority's forward calendar involve Virtua Health System and Hackensack University Medical Center, both of which will likely be insured and, therefore, will not be affected by the proposed policy. Mr. Hopkins did note that, in the meantime, the Authority has no policy, which may be concerningly permissive. Mr. Escher stated that he would be ready to vote on the matter at the following meeting.

#### ***POST-RETIREMENT HEALTH BENEFIT TRUST – APPROVAL AND FUNDING***

Jim Van Wart reminded the Members that on December 21, 2000, the Authority approved a post-retirement health care plan for qualified employees of the Authority along with their spouses (*attached titled "Retiree Medical Coverage - Summary of Provisions"*). On March 23, 2006, the Authority approved the establishment of a Trust for the purpose of funding the annual actuarially computed liability of the Authority for these benefits. It also approved the payment of the liability for 2005 and 2006 in the amount of \$630,000. On November 16, 2006, the Authority approved the inclusion in the 2007 budget for the amount of \$333,872 for the payment of the 2007 liability.

During 2006, Authority staff and representatives of the Attorney General's office drafted a document for this Trust. After several editions, the Attorney General's office decided that they wanted to undertake a Request for Proposals (RFP) for a law firm to prepare the Trust Agreement. That process was completed in October 2007 and the firm of Ballard, Spahr, Andrews & Ingersoll, LLP ("Ballard Spahr") was assigned.

The Trust will be used for the funding of the annual liability and the payment of the annual cost of the benefit. It is contemplated that there will be one annual payment for the liability and one annual payment to reimburse the Authority for the cost of the benefit that the Authority will have paid during the year. The total actuarially-computed liability as of 2007 year-end is \$952,339.

Ballard Spahr is currently reviewing the Trust documents and the AG's office will either accept the documents in that form or request more information. On behalf of staff, Mr. Van Wart recommended that the Members authorize the Executive Director to execute the Trust (*attached titled "New Jersey Health Care Facilities Financing Authority Essential Governmental Function Trust Under Code Section 115"*) and approve the payment of the actuarially-computed liability of \$952,330 as of December 31, 2007, upon final approval from the Attorney General's office.

Mr. Van Wart noted that both the Educational Facilities Authority ("EFA") and the Economic Development Authority ("EDA") recently adopted an identical form of the Trust that is being presented for the Members today.

Mr. Escher commended the simple structure allowing for only one payment annually from the Trust to the Authority. Mr. Van Wart noted that the trustee agreed to manage the trust for only \$500 a year, since it already performs other services for the Authority.

Mr. Escher asked if there was a plan established in the Trust in the event that the Authority cannot make a payment. Mr. Van Wart replied that, with the plan to pay into the trust each year, inability to pay is not a valid concern. He added that the Authority currently has only one employee in the retirement plan. Over the next few years a few others are expected to enter the plan. By making the lump funding now, as well as the payment of the annual liabilities, the benefit will be solidly funded and earn significant interest income.

Dr. Cohen asked where the funds will be invested, to which Mr. Van Wart replied that they will be invested conservatively in either a money market account or the New Jersey Cash Management Fund, both of which have been earning well. Dr. Cohen asked if the plan allows those who are ineligible by age and length of service to buy into the program, to which Mr. Van Wart replied no and Mr. Tetelman added that the State, also, does not permit this.

Dr. Cohen asked about the plan's Medicare requirements, to which Mr. Van Wart stated that, according to the program's rules, an employee is obligated to enroll in Medicare when he/she becomes eligible for it, after which Medicare would be the primary provider and the Trust would be secondary. Mr. Hancock added that the Authority's pension program also requires participants to enroll in Medicare when eligible.

Ms. Kralik asked for clarification of how the Trust will work. Mr. Van Wart stated that the Authority currently pays the cost of its retired employee's benefits on a monthly basis. With the Trust, the Authority will continue to do this and at the end of every year, the Trust will reimburse the Authority for all retirement expenses in one lump sum payment. She asked about the type of insurance offered to retirees, to which Mr. Hancock replied that when an employee retires, he/she has a selection of options from which to choose. The current retiree uses the NJ Plus plan. Ms. Kralik asked what would happen if the State health benefits changed. Staff replied that the retirement program would be recalculated by actuaries according to the new plan.

Mr. Escher was pleased with the plan and added that he does not want the Authority to carry the unfunded liability going forward.

Dr. Cohen asked if there are any tax issues associated with the Trust, to which Mr. Van Wart replied that the tax review is the final piece of the approval process that is currently undergoing review by Ballard Spahr.

Mr. Tetelman offered a motion to authorize the Executive Director to execute the Trust in substantially the form attached hereto and approve the payment of the actuarially-computed liability of \$952,339 as of December 31, 2007, upon approval of the Trust from the Attorney General's office; Dr. Cohen seconded. Mr. Escher voted yes, Dr. Cohen voted yes, Mr. Lee voted yes, Ms. Kralik abstained, Ms. Stokley voted yes and Mr. Tetelman voted yes. The motion carried.

#### **AB RESOLUTION NO. GG-83**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby authorizes the Executive Director to execute the Trust, as recommended by staff, and approve the payment of the actuarially-computed liability of \$952,339 as of December 31, 2007, upon approval of the Trust from the Attorney General's office.

#### ***2007 AND 2008 BUDGET AMENDMENTS***

##### ***A. Office Rent & Electricity***

Michael Ittleon reported that the Authority's lease with Drei Holdings, also known as Nexus Properties, allows for escalation charges when the lease year operating expenses exceed the base operating expenses established in the lease. With that said, the Authority received an invoice from Drei Holdings in the amount of \$41,493.00 which represents escalated charges for the period September 22, 2006 through September 21, 2007. The amount budgeted in 2007 in the Office Rent line item for escalation charges is \$25,000 which does not cover the invoice. The invoices paid the past two years totaled \$24,116 and \$20,841, respectively, and as such, staff was not expecting the significant increase that has occurred when preparing the 2007 budget.

The significant increase in escalation charges was primarily in the categories of Electricity and Building Superintendent and Staff, as was explained in the interoffice memorandum from Nexus Properties that had been distributed to the Members.

Based on the explanations, staff asked the Members for their consideration in amending the 2007 budget, appropriating an additional \$16,493 in the Office Rent line item in order to pay the invoice received.

Further, since the 2008 cash budget that was approved on October 25, 2007 included only \$25,000 in the Office Rent line item for the escalation charges for the period September 22, 2007 through September 21, 2008, staff also asked the Members to amend the 2008 budget by appropriating an additional \$25,000 in the Office Rent line item since the amount currently budgeted is expected to be insufficient to pay the invoice for the end of 2008 (staff does not expect the electricity and building superintendent and staff categories to decrease).

Mr. Escher asked if staff is comfortable with the cost jump, to which Mr. Ittleon replied that the explanations provided to staff were satisfactory, primarily that the electricity rates increased and costs of staffing increased as a result of the State's Prevailing Wage Requirements.

Mr. Tetelman offered a motion to amend the 2007 and 2008 budgets to provide sufficient funds for the Authority's Office Rent line items, in accordance with recent price escalations; Ms. Stokley seconded. The vote was unanimous and the motion carried.

**AB RESOLUTION NO. GG-84**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby amends the 2007 budget to appropriate an additional \$16,493 in the Office Rent line item; and

**BE IT FURTHER RESOLVED**, that the Authority hereby amends the 2008 cash budget to appropriate an additional \$25,000 in the Office Rent line item.

***B. Special Counsel for Barnert Bankruptcy***

Jim Van Wart informed the Members that Barnert Hospital currently has two Authority issues outstanding:

- Barnert Hospital, series 1999, in the amount of \$33,265,000 with \$26,175,000 outstanding, and
- Barnert Hospital, series 2003, in the amount of \$5,500,000 with \$1,698,097 outstanding.

The 1999 bonds are insured by the Federal Housing Administration (“FHA”) under its 242 program.

Mr. Van Wart reminded the Members that Barnert Hospital filed for bankruptcy under Chapter 11 of the bankruptcy code on August 15, 2007. Shortly thereafter, staff asked the Attorney General’s office to appoint special FHA Counsel to protect the Authority’s interests in the bankruptcy and to also be available to assist the Authority in the filing of claims for FHA insurance if there were to be a non-payment on the 1999 bonds.

The Attorney General’s office appointed the firm of Blank Rome LLP to represent the Authority. Blank Rome submitted its first invoice in the amount of \$34,642.54 to the Authority. Staff reviewed the invoice and it is appropriate for the work done. Therefore, staff requested that the 2007 budget be increased in order to pay this invoice. Mr. Van Wart noted that with the increase in hospitals going into bankruptcy in various situations, and especially with the possibility of Barnert’s bankruptcy being prolonged, the Authority may expect to see similar requests to this in the future.

Mr. Tetelman asked what kind of work the special counsel does, to which Mr. Hopkins replied that this counsel attends the bankruptcy hearings and participates in conference calls with FHA’s counsel. Mr. Tetelman asked if, since the Authority’s interests are primarily consistent with FHA’s, is it necessary for the Authority to have its own counsel and not rely on the counsel of FHA? Mr. Hopkins noted that most of the Authority’s interests are in line with FHA, but it is important to ensure that the Authority is protected especially since, as Mr. Rones stated, the mortgage is in the Authority’s name, not FHA’s. Mr. Ittleson and Mr. Van Wart also reminded the Members that the Authority serves as the Mortgage Servicer for the Barnert Hospital bond transaction, too. Therefore if there were a non-payment, the Authority itself would have to make the claim.

Mr. Escher asked if it is typical for the Authority to serve as Mortgage Servicer, and Mr. Van Wart said that on FHA-insured transactions it is.

Dr. Cohen asked if the Authority should consider altering its fees going forward to account for the possibility of having to hire counsel in the future, to which Mr. Hopkins noted that the Authority’s bond documents include language that the borrower indemnifies the Authority, however, in the case of a bankruptcy that is a hollow guarantee since there are no funds available to the borrower to reimburse the Authority for legal fees. Dr. Cohen suggested

increasing fees charged by the Authority as Mortgage Servicer. Mr. Van Wart noted that the Authority does charge a fee for Mortgage Servicing, however, that rate is set by FHA and the Authority is unable to raise it. Mr. Rones added that, though he does not like to comment on policy, it may be worth noting that, generally, borrowers using FHA insurance are in a more tenuous financial situation to begin with, therefore, it may be a point of public policy to consider not raising fees additionally for these borrowers.

Mr. Ittleson added that prior to a couple of years ago, the Authority's annual fee for FHA financings was 50% of the standard annual fee, however, a change was made for new FHA issues going forward, bringing the annual fee for FHA financings in line with the standard fee charged on a regular revenue bond issue.

Ms. Stokley asked if the Authority anticipates a need for more counsel time regarding Barnert Hospital going forward, to which Mr. Hopkins replied yes, but only until the hospital's auction, currently set for January 2008. Mr. Escher asked if the Bayonne bankruptcy would be a similar situation, to which staff replied that neither Bayonne nor Pascack Valley Hospital currently pose a need for special counsel to the Authority. Barnert Hospital is a special circumstance.

Ms. Stokley asked about the determination for the hourly billing rate for the special counsel, which, at \$425 per hour, seems steep. Mr. Van Wart stated that the Attorney General's office agreed to this rate, and the Authority is subject to that decision. Mr. Hopkins noted also that Blank Rome had been selected through a bidding process. While the lowest bidding firm had a conflict and could not provide the services, Blank Rome's bid, which was the second lowest, was not far off from the lowest.

Mr. Tetelman offered a motion to amend the Authority's 2007 budget in order to pay the first invoice for Blank Rome, in the amount of \$34,642.54, for special counsel services regarding the Barnert Hospital bankruptcy; Ms. Kralik seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. GG-85**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby amends the Authority's 2007 budget in order to pay the first invoice for Blank Rome, in the amount of \$34,642.54, for special counsel services regarding the Barnert Hospital bankruptcy.

#### ***AUTHORITY EXPENSES***

Mr. Escher referenced a summary of Authority expenses and invoices. Ms. Kralik offered a motion to approve the bills and to authorize their payment; Dr. Cohen seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. HH-86**

**WHEREAS**, the Authority has reviewed memoranda dated December 13, 2007, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$661,123.95, \$67,622.31 and \$366,215.97 respectively, and has found such expenses to be appropriate;



**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

### **STAFF REPORTS**

Mr. Escher thanked staff for their preparation of reports that were distributed for review, including the Project Development Summary, Cash Flow Statement, and a Legislative Advisory. Dr. Cohen asked if staff could, going forward, highlight any portions of the Legislative Advisory that may be of particular interest to the Authority and its Members. Mr. Hopkins noted, and Mr. Escher concurred that Mr. Hopkins addresses the legislative matters that are of particular interest to the Authority in his Executive Director's report. Mr. Hopkins stated that he will continue to do so, and then announced the following items in his Executive Director's Report:

1. In Authorities Unit news, Verice Mason, former head of the Governor's Authorities Unit, passed away about two weeks ago at age 55 after a long battle with cancer. The Authority staff and Members expressed their condolences.

Matthew Boxer, also former head of the Authorities Unit, was confirmed by the Senate to serve as the State Controller. Also, Lisa Thornton, who once served the Authority as its Authorities Unit Representative was recently nominated as Superior Court Judge in Monmouth County.

2. The *Commission on Rationalizing New Jersey's Health Care Resources* held a conference call on December 13<sup>th</sup> and is putting the final touches on its final report which is expected to be delivered to the Governor by the end of the year and released in early January.
3. In hospital news, Gene Shuler has taken over as interim Chief Financial Officer at Barnert Hospital replacing Stuart May.

Regarding, Bayonne Medical Center's bankruptcy, there is a hearing today to consider continued use of cash collateral and also get a progress report from IJG, the purchaser, on its financing arrangements and regulatory approvals. The City of Bayonne provided a \$6 million loan to Bayonne Medical Center the first week of December.

Regarding Pascack Valley Hospital's bankruptcy, the State Health Planning Board, which recommended approval of the hospital's Certificate of Need to close, agreed to recommend keeping the license active for two years so it could reopen under either the current owner or a new owner. Bidders for the hospital have been working with Cushman & Wakefield, and the selection of a stalking horse bidder is expected in early January with a bankruptcy auction to follow approximately three weeks later.

In October, the Authority authorized a negotiated sale, amounting approximately \$200 million, on behalf of Robert Wood Johnson University Hospital. The hospital has selected Wachovia Securities as its senior managing underwriter for the financing.

4. In Authority news, Assistant Account Administrator Tony Gennari retired on November 30, 2007. Jessica Waite, who joined the Authority staff in August as the Administrative Assistant for the Operations Department, applied

for Tony's position and made the transition to Assistant Account Administrator on December 3<sup>rd</sup>. Terry Seremeta then joined the Authority on December 12<sup>th</sup> as the Administrative Assistant for the Operations Department. Terry has an Associate's Degree in office systems technology from Mercer County Community College and has twenty years of experience as an executive assistant in places such as Nunzio Fortuna Contractor, Philadelphia Insurance Companies, Delsys Pharmaceutical, Merrill Lynch, Commodities Corporation and American Reliance Insurance Company.

The Authority will again have an Eagleton Fellow from Rutgers University serve as an intern this spring. Starting mid-January, Joe Vas will be spending approximately 15 hours per week with the Authority. Joe is a joint J.D./M.B.A. candidate at Rutgers Camden and previously worked in the Office of Public Finance at the New Jersey Treasury Department. He is expected to work on a training module for hospital board members. We also expect he may be assisting project management on some of the upcoming financings.

Jim Van Wart, the Authority's Director of Operations and Finance, addressed fellows of Leadership Newark about health care issues. Leadership Newark is a 2-year fellowship program for qualified professionals committed to the Greater Newark community. The program provides a forum for emerging leaders to debate and discuss public policy issues as they move towards developing solutions and potential programs to better the community.

5. Staff thanks the Board Members for recently making themselves available for special meetings and entertaining several last minute additions to the agenda.

Mr. Escher asked if Tony Gennari was eligible for the Authority's retirement benefits package, to which it was replied that he is not because he only served with the Authority for eight years.

In response to a question from the Members, staff noted that Heather Howard's earliest possible date for confirmation as the Commissioner of Health and Senior Services is January 4, 2008. Mr. Tetelman confirmed that Dr. Fred M. Jacobs will continue to serve in that capacity until December 31, 2007.

### ***EXECUTIVE SESSION***

At this point, Mr. Escher asked the Members to meet in Executive Session, as permitted by the Open Public Meetings Act and the Authority's By-Laws, to discuss litigation related to Barnert Hospital's bankruptcy and to discuss contract negotiations regarding St. Mary's Hospital of Passaic and Solaris Health System. Mr. Tetelman moved to meet in Executive Session for these purposes; Ms. Kralik seconded it. Mr. Escher voted yes, Dr. Cohen abstained because he had to leave, Mr. Lee voted yes, Ms. Kralik voted yes, Ms. Stokley voted yes and Mr. Tetelman voted yes. The motion carried. At this point, Dr. Cohen exited the meeting.

**AB RESOLUTION NO. HH-88**

**NOW, THEREFORE, BE IT RESOLVED**, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss litigation related to Barnert Hospital's bankruptcy and to discuss contract negotiations regarding St. Mary's Hospital of Passaic and Solaris Health System, and

**BE IT FURTHER RESOLVED**, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. As there was no further business to be addressed, Mr. Tetelman moved to adjourn the meeting, Ms. Stokley seconded. The vote was unanimous, and the motion carried at 12:35 a.m.

I HEREBY CERTIFY THAT THE  
FOREGOING IS A TRUE COPY OF  
MINUTES OF THE NEW JERSEY  
HEALTH CARE FACILITIES  
FINANCING AUTHORITY MEETING  
HELD ON DECEMBER 18, 2007.

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Dennis Hancock  
Assistant Secretary

**AB RESOLUTION NO. HH-81**

**RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY  
NEGOTIATED TRANSACTION PURSUANT TO  
EXECUTIVE ORDER NO. 26**

***Princeton Healthcare System***

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**WHEREAS**, the New Jersey Health Care Facilities Financing Authority (the “Authority”) was duly created and now exists under the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:2I-1 et seq., as amended (the “Act”), for the purpose of ensuring that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

**WHEREAS**, the Authority issues its bonds from time to time for the achievement of its authorized purposes; and

**WHEREAS**, on October 25, 1994, the Governor issued Executive Order No. 26 which sets forth procedures by which an issuer may determine the method of sale of bonds or notes; and,

**WHEREAS**, on December 8, 1994, the Authority adopted Section 2 of its policy which was developed to implement Executive Order No. 26, which requires an Authority resolution to pursue a negotiated sale of bonds; and,

**WHEREAS**, on March 28, 1996, the Authority amended its policy related to Executive Order No. 26; and,

**WHEREAS**, the Authority’s policy states that a negotiated sale of bonds will be conducted if it is determined by the Authority that it would better serve the requirements of a particular financing; and,

**WHEREAS**, a negotiated transaction would be permitted in circumstances including, but not limited to, the sale of bonds for a complex or poor credit; the development of a complex financing structure, including those transactions that involve the simultaneous sale of more than one series with each series structured differently; volatile market conditions; large issue size; programs or financial techniques that are new to investors; or, for variable rate transactions; and,

**WHEREAS**, Princeton Healthcare System has entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the “Financing”); and,

**WHEREAS**, Princeton Healthcare System has requested that the Authority consider approving the pursuit of a negotiated sale; and,

**WHEREAS**, the Financing could be considered a complex or poor credit; and,

**WHEREAS**, the proposed issue size could be considered large; and,

**WHEREAS**, the Financing may be of a complex structure, including the involvement of the simultaneous sale of more than one series with each series structured differently; and,

**WHEREAS**, market conditions could be considered volatile; and,

**WHEREAS**, Princeton Healthcare System is considering the issuance of variable rate bonds for all or a portion of the Financing; and,

**WHEREAS**, the Authority is desirous of being responsive to Princeton Healthcare System's request; and,

**WHEREAS**, the aforementioned resolution and justification in support of such resolution must be filed, within five days of its adoption, with the State Treasurer;

**NOW, THEREFORE, BE IT RESOLVED**, that, based upon the above findings, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated sale; and,

**BE IT FURTHER RESOLVED**, that the Executive Director is hereby directed and authorized to transmit a copy of this Resolution and justification in support of such resolution to the State Treasurer.

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AMENDMENT TO LOAN AGREEMENT

DATED AS OF DECEMBER 1, 2005

Between

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

and

THE COMMUNITY HOSPITAL GROUP, INC.

RELATING TO THE \$18,000,000 NEW JERSEY HEALTH CARE FACILITIES FINANCING  
AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – THE  
COMMUNITY HOSPITAL GROUP, INC. PROJECT) SERIES 2005A-3

DATED AS OF DECEMBER 18, 2007

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**AMENDMENT TO LOAN AGREEMENT DATED AS OF DECEMBER 1, 2005  
BY AND BETWEEN THE NEW JERSEY HEALTH CARE FACILITIES  
FINANCING AUTHORITY AND THE COMMUNITY HOSPITAL GROUP, INC.**

This Amendment to the Loan Agreement Dated As Of December 1, 2005 (the **“Original Agreement”**) by and between the New Jersey Health Care Facilities Financing Authority (the **“Authority”**), a public body corporate and politic and a political subdivision of the State of New Jersey and The Community Hospital Group, Inc. a non-profit corporation, duly incorporated and subsisting under the laws of the State of New Jersey (the **“Hospital”** or the **“Borrower”**) dated as of December 1, 2007 (the **“Amendment”**).

**WITNESSETH:**

**WHEREAS**, the Hospital has obtained financial assistance from the Authority to fund (i) the costs of building improvements and various items of equipment for the Community Hospital Group, Inc., including, but not limited to, renovations to the Access Center, the dietary department, the radiology department, a nursing unit; and major equipment purchases in the area of information technology as well as furniture and equipment for use in various hospital departments; (ii) capitalized interest on all or a portion of the hereinafter defined Bonds; and (iii) the costs of issuing the Bonds (the **“Project”**).

**WHEREAS**, the Authority to accomplish the purposes of the Act, has provided funds to the Hospital for the Project;

**WHEREAS**, the Authority and the Hospital have entered into the Original Agreement in connection with the Bonds wherein the Authority has loaned the proceeds of the Bonds to the Hospital and wherein the Hospital has agreed to, among other things, make certain loan payments to the Authority, all as set forth in the Original Agreement;

**WHEREAS**, the Authority has issued its \$18,000,000 Revenue Bonds, (Variable Rate Composite Program - JFK Medical Center Project) Series 2005 A-3 (the **“Bonds”**) under and pursuant to a trust indenture dated as of December 1, 2005 (the **“Trust Indenture”**);

**WHEREAS**, the Hospital has requested that the Authority amend paragraphs (d), (e) and (f) of Section 5.7 of the Original Agreement, which paragraphs relate to the requirements imposed by the Authority in connection with the establishment by the Hospital of any captive insurance or self-insurance programs, through execution by the parties of this Amendment to the Original Agreement;

**WHEREAS**, the Hospital has established a captive insurance company program and the Authority has previously approved the form of such program (the **“Accepted Plan”**) subject to the receipt by the Authority, on an annual basis, of certain items including receipt of, among other things, a Qualified Insurance Rating (as defined in the Original Agreement) from A.M. Best Company or another insurance rating agency;

**WHEREAS**, the Authority desires to amend the Original Agreement to incorporate its new policy which allows for other items to be provided by the Hospital if it so wishes, in lieu of a Qualified Insurance Rating;

**WHEREAS**, Section 8.5 of the Original Agreement and Section 9.06 and Section 9.09 of the Trust Indenture permit the Hospital and the Authority to amend the Original Agreement with the prior written consent of Wachovia Bank, National Association (the **“Bank”**), the letter of credit bank issuing the letter of credit securing the Bonds (so long as no Event of Default described in clauses (i) or (j) of Section 7.01 of the Trust Indenture relating to the Bank has occurred and is continuing) and with the consent of the Trustee, provided that the Authority and the Trustee receive an opinion of bond counsel as required by Section 9.06 of the Trust Indenture, to the effect that such amendment is authorized by the Trust Indenture and the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes;

**WHEREAS**, the Bank and the Trustee have each provided their written consent to the Amendment by their execution hereof;

**WHEREAS**, the Authority has obtained the opinion of Windels Marx Lane & Mittendorf LLP, bond counsel, as required by Section 9.06 of the Trust Indenture;

**WHEREAS**, by resolution adopted on December 18, 2007, the Authority authorized this amendment to the Original Agreement;

**NOW, THEREFORE**, for and in consideration of the premises herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree that the Original Agreement shall be amended as follows:

***AMENDMENT TO ORIGINAL AGREEMENT***

***Amendment to Section 5.7.***

Section 5.7 of the Original Agreement is hereby amended to delete sections (d), (e) and (f) and to replace such sections in their entirety with the following new sections (d), (e), (f) and (g):

“(d) The Authority has heretofore accepted a certain plan of self-insurance and captive insurance in lieu of the insurance required by Section 5.7(a)(iii) and (iv) hereof (the “**Accepted Plan**”). Upon the written request of the Borrower, the Authority, without the consent of the Trustee but with the consent of the Bank (as defined in the Trust Indenture), may permit modifications to or substitutions for the Accepted Plan or modifications of or substitutions for the other types of insurance required to be maintained by Section 5.7(a), including permission for the Borrower to be self-insured or to have a captive insurance company program in whole or in part for any insurance coverages not the subject of the Accepted Plan, all upon such terms and conditions as the Authority may require. In making its decision to permit such modifications or substitutions, the Authority may consider the availability of insurance, the terms upon which insurance is available, the cost of available insurance, and the effect of such terms and such rates upon the Borrower’s costs and charges for their service. In making any such determinations, the Authority may rely upon a report of an independent Insurance Consultant chosen by an Authorized Representative of the Authority and paid for by the Borrower. The Authority shall not permit the Borrower to make any modifications or substitutions for any of the insurance required by Section 5.7 unless: (i) the Authority has received a written actuarial report addressed to the Authority and the Borrower with respect to such self-insurance or captive insurance company programs from an independent actuary (not unacceptable to an Authorized Representative of the Authority) specializing in the type of insurance that is the subject of the self-insurance or captive insurance programs in form and substance satisfactory to an Authorized Representative of the Authority; (ii) the Authority shall have received a report from an independent Insurance Consultant addressed to the Authority and the Borrower to the effect that such self-insurance or captive insurance company program shall not disqualify or materially adversely affect the Borrower for reimbursement under Medicare or Medicaid programs or any governmental programs providing similar benefits or establishing rates and charges for health care services; and (iii) evidence in form acceptable to an Authorized Representative of the Authority that adequate reserves for such programs have been or will be deposited in trust and maintained with an Independent corporate trustee or in the captive insurance company in an amount acceptable to an Authorized Representative of the Authority, which shall be at least equal to the amount required by the actuarial report referred to in clause (i) above. The Borrower shall pay any fees charged by such independent Insurance Consultant and independent actuary and any expenses incurred by the Authority. The Authority shall give written notice to the Borrower and to the Trustee of any modifications or substitutions permitted to be made pursuant to this paragraph, and shall indicate in such notice the effective date of such modifications or substitutions. The Authority’s decision to permit the modifications or substitutions aforesaid shall be in the Authority’s sole and absolute discretion.



(e) In the event that the Borrower self-insures or insures through a captive insurance company, including pursuant to the Accepted Plan, the Borrower shall provide to the Authority at the time of commencement of such coverage and annually thereafter (no later than the anniversary date of commencement of such coverage), either

(A) a Qualified Insurance Rating from an insurance rating agency; or

(B) the following items:

(i) a certificate addressed to the Authority and the Borrower from a nationally recognized independent Insurance Consultant (not unacceptable to an Authorized Representative of the Authority) stating that the types and amounts of coverage provided through the self-insurance trust or captive insurance company are customary and reasonable for institutions of similar type and size, taking into account the service mix provided by the Borrower;

(ii) a certificate addressed to the Authority and the Borrower from an independent actuary (not unacceptable to an Authorized Representative of the Authority) specializing in the type of insurance that is the subject of the self-insurance or captive insurance programs, certifying that based upon its actuarial study, the reserves on deposit in the captive insurance company or self insurance trust are sufficient for such coverage, and identifying the assumptions that it has relied upon in making its determination (which assumptions shall not be unacceptable to an Authorized Representative of the Authority); and

(iii) an opinion of counsel for the Borrower addressed to the Authority and the Borrower to the effect that the captive insurance company or self insurance trust is in compliance with the laws and regulations of the state and/or country of domicile (the form of which opinion shall not be unacceptable to an Authorized Representative of the Authority); and

(iv) a certificate executed by the Chief Financial Officer of the Borrower stating that the captive insurance company or self insurance plan has been audited by a nationally recognized independent firm of public accountants and has received an unqualified opinion (the form of which opinion shall not be unacceptable to an Authorized Representative of the Authority); and

(v) such other documents as the Authority may require.

The provisions of this subsection 5.7(e) are intended by the parties to replace in their entirety the Authority's previous reporting and funding requirements applicable to the Accepted Plan.

(f) In the event that the Borrower self insures or insures through a captive insurance company, including pursuant to the Accepted Plan, and it is not able to provide the items required by subsection (e) of this Section by the dates required by subsection (e), unless an Authorized Representative of the Authority waives receipt of such item or items in writing, the Borrower shall, within ninety (90) days of the anniversary date of commencement of such coverage, or by such later date approved in writing by an Authorized Officer of the Authority, procure insurance policies from financially sound and reputable insurance companies qualified to do business and in good standing in New Jersey as required under subsection 5.7(a) hereof.

(g) Notwithstanding anything set forth herein to the contrary, the provisions of paragraph (e) of this Section 5.7 may be amended or supplemented by the Authority in its sole and absolute discretion, and without the consent of the Trustee and the Borrower but with the consent of the Bank (as defined in the Trust Indenture) in order that such provisions shall be consistent with the Authority's policies then in effect applicable to self-insurance or captive insurance programs." The Borrower shall be required to comply with such amendment and/or supplement within either 1) sixty (60) days of the effective date of the change or 2) such later time as determined by the Authority.

## MISCELLANEOUS

### Ratification of Provisions of the Original Agreement.

The Original Agreement, as amended by this Amendment, is in all respects ratified and shall remain in full force and effect. The Original Agreement and this Amendment shall be read, taken and construed as one and the same instrument.

### Effective Date.

This Amendment shall become effective as of the day and year first written above upon execution hereof by the parties hereto.

### Counterparts.

This Amendment may be executed in multiple counterparts each of which shall be an original and each of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have each caused this Amendment to be executed by their duly authorized officers as of the date first written above.

Attest:

NEW JERSEY HEALTH CARE  
FACILITIES FINANCING AUTHORITY

By: \_\_\_\_\_

By: \_\_\_\_\_

Attest:

THE COMMUNITY HOSPITAL GROUP, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_

Consented to By  
Wachovia Bank, National Association

By: \_\_\_\_\_

Authorized Officer  
Consented to By  
The Bank of New York

By: \_\_\_\_\_ Authorized Officer

## **Proposed Derivative Policy Considerations**

These policy guidelines are prepared for discussion purposes among members of the Derivatives Working Group and as a starting point for deliberation by the Members of the Authority:

The following covenants should be considered for inclusion in Authority Loan Agreements for unenhanced bond issues that are placed through the public markets. Any enhancer or other market requirements should be included in series resolutions or bond indentures.

**Derivative Agreement** means, without limitation,

- (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;
- (b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices (including “basis swaps”);
- (c) any contract to exchange cash flows or payments or series of payments;
- (d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and
- (e) any other type of contract or arrangement that the Borrower (or Obligated Group) entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment risk or to protect against any type of financial risk or uncertainty.

### **Derivative Contract Requirements**

- a) The Borrower (or Obligated Group) may enter into one or more Derivative Agreements where such Derivative Agreement is entered into for the purpose of hedging interest rate risk or to manage interest rate costs with respect to Indebtedness, whether then outstanding or expected to be issued or incurred for a defined project.
- b) The Derivative Agreement shall not contain any leverage element or multiplier greater than 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component, or unless such leverage is necessary solely to match one index against another to meet market conditions (e.g. 150% of BMA in exchange for 100% of LIBOR due to the market relationship of BMA to LIBOR in a taxable transaction).
- c) At the time the Derivative Agreement is signed, the counterparty or its guarantor must have at least one rating for its long-term debt obligations in one of the two highest rating categories (without regard to numerical or other qualifiers) given by a nationally recognized rating agency.
- d) The Borrower (or Obligated Group) must provide, within 15 calendar days of the execution of the Derivative Agreement, to the Trustee and the Authority, a copy

- of the Derivative Agreement, a copy of the Internal Revenue Service ID Certificate, if any, and an Officer's Certificate stating that, at the time of the execution of the Derivative Agreement, i) no Event of Default occurred or is continuing or will have occurred by reason of the execution of the Derivative Agreement, and ii) no event occurred and is continuing or will have occurred by reason of the execution of the Derivative Agreement which, with the passage of time or the giving of notice, would constitute an Event of Default.
- e) The Borrower (or Obligated Group) may enter into a Derivative Agreement not covered under a) above only if the Borrower (or Obligated Group), at the time of execution can comply with b), c), and d) above, and, either 1) the Borrower (or Obligated Group) is itself rated in one of the top three rating categories (without regard to numerical or other qualifiers), or 2) is rated "investment grade" and provides to the Authority and the Trustee an Officer's Certificate that indicates that i) the Borrower's (or Obligated Group's) Debt Service Coverage Ratio, based upon the most recent Audited Financial Statements, was at least 1.5x, and ii) as of the date of execution of the Derivative Agreement the Borrower's (or Obligated Group's) Days Cash on Hand was equal to or exceeded 75 days.

### **Derivative Contract Security Provisions**

The Borrower (or Obligated Group) may secure its obligations arising under a Derivative Agreement:

- a) By a subordinate lien, or
- b) By a lien for the equal and ratable benefit of all of the holders of Obligations, provided that, at the time of the execution of the Derivative Agreement, the Borrower (or Obligated Group) provides an Officer's Certificate, to the Trustee and the Authority, to the effect that either 1) based upon the most recent Audited Financial Statements, the Debt Service Coverage Ratio was at least 1.5x, and the Borrower (or Obligated Group) is rated in one of the top three rating categories (without regard to numerical or other qualifiers), or 2) based on the most recent Audited Financial Statements, the Debt Service Coverage Ratio was at least 1.5x, and the Borrower (or Obligated Group) is rated "investment grade", and as of the date of execution of the Derivative Agreement the Borrower's (or Obligated Group's) Days Cash on Hand was equal to or exceeded 75 days.

The Borrower (or Obligated Group) may agree to collateralize its obligations under the Derivative Agreement if, at the time of execution, the Borrower (or Obligated Group) provides to the Trustee and Authority, an Officer's Certificate to the effect that the Borrower (or Obligated Group) has made provisions in the Derivative Agreement that the Borrower (or Obligated Group) can only be required to provide collateral if, at the time such deposit would be required, the Borrower (or Obligated Group) can meet its Transfer of Assets test conditions with respect to any such required delivery of collateral, assuming the collateral deposit has been made.

## **Derivative Reporting Requirements**

The Borrower (or Obligated Group) agrees to provide to the Authority

- a) at the time of issuance of the Bonds, a listing of all Derivative Agreements outstanding and the “mark-to-market” value as of the last day of the most recent fiscal quarter,
- b) at the closing on the Loan, a copy of the Borrower’s (or Obligated Group’s) Derivative Policy, if one exists, and
- c) within 45 days of the end of each fiscal quarter of the Borrower (or Obligated Group), a description of any modifications to the Borrower’s (or Obligated Group’s) Derivative Policy.

## **Derivative Disclosure Requirements**

The Borrower (or Obligated Group) must disclose through notes to Audited Financial Statements, Management Discussion or elsewhere in the official statement, the existence of outstanding Derivative Agreements and a general description thereof.

## **Other Issues**

While a counterparty may be secured on a parity with bondholders (or noteholders) as to any mortgage or gross revenues pledge if the conditions above under “Derivative Contract Security Provisions” are met, under no circumstances shall the counterparty to a Derivative Agreement have voting power under the Bond Documents or Master Indenture. However, to the extent that a counterparty is secured on a parity with bondholders (or noteholders), it should be noted that in no event will a majority of bondholders (or noteholders) be able to vote, while a Derivative Agreement which provides such parity position is outstanding, to implement amendments to the Bond Documents or the Master Indenture that impair the parity security status or position of the counterparty.

For purposes of calculating Funds Available for Debt Service and/or Debt Service Requirements, net payments under Derivative Agreements may be considered.

See **AB RESOLUTION NO. GG-84**

**New Jersey Health Care Facilities  
Financing Authority**

***Retiree Medical Coverage  
Summary of Provisions***

The New Jersey Health Care Facilities Financing Authority (“NJHCFFA”) provides medical coverage for its eligible retirees as a participating employer in the New Jersey State Health Benefits Program.

*Adoption of Retiree Program.* NJHCFFA adopted the New Jersey State Health Benefits Program for eligible retirees through resolutions adopted by the Board of NJHCFFA on December 21, 2000, effective January 1, 2001. These resolutions establish the eligibility criteria for coverage and the cost-sharing structure, as set forth below.

*Eligibility for coverage.* An employee of NJHCFFA becomes eligible for retiree medical coverage under the New Jersey State Health Benefits Program at

- Disability retirement
- Retirement with 25 or more years of service in the Public Employees’ Retirement System and 10 or more years of service with NJHCFFA
- Retirement at or after age 65, with 25 or more years of service in the Public Employees’ Retirement System and 6 or more years of service with NJHCFFA, or
- Retirement at or after age 62 with 15 or more years of service with NJHCFFA.

Coverage includes coverage for the retiree’s spouse and eligible dependent children.

The surviving spouse of covered retiree will continue to be covered after the death of the retiree.

Coverage ends at the death of the retiree or surviving spouse.

***Cost-sharing. NJHCFFA will pay:***

- 75% of the premium if the retiree or surviving spouse elects traditional coverage.
- 100% of the premium if the retiree or surviving spouse elects NJ Plus or managed care coverage.
- Medicare Part B premiums.

*Plan Terms.* The substantive provisions of the Plan are contained in the plan documents for the New Jersey State Health Benefit Program. Details of the program may be found online at <http://www.state.nj.us/treasury/pensions/shbp.htm>

Costs and Funding. The projected future costs of the NJHCFFA retiree program, and annual contributions required to fund it, are to be determined annually by a qualified actuary. The first actuarial report was issued by Buck Consultants in February 2006.

The retiree program is currently unfunded, but it is anticipated that NJHCFFA will establish a trust or other funding vehicle to hold assets contributed to offset future benefit obligations.

Administration. NJHCFFA has administrative responsibility for identifying eligible individuals and submitting premiums payments to the New Jersey State Health Benefits Program. The New Jersey State Health Benefit Program is responsible for payment of claims and all other plan administrative activities.

Amendment or Termination. The NJHCFFA retiree medical program may be amended or terminated through appropriate action of the Board of NJHCFFA.

**See AB RESOLUTION NO. GG-84**

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY  
ESSENTIAL GOVERNMENTAL FUNCTION TRUST  
UNDER CODE SECTION 115**

This Essential Governmental Function Trust Agreement ("Trust Agreement") is made by and between New Jersey Health Care Facilities Financing Authority (the "Authority") and The Bank of New York (the "Trustee").

**RECITALS**

WHEREAS, the Authority is a municipal corporation of the State of New Jersey exempt from federal income tax under the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Authority provides for the security and welfare of its eligible employees, eligible retirees, their spouses and dependents by providing postemployment health benefits; and

WHEREAS, the Authority hereby declares that an essential governmental function and integral part of its exempt activities is to assist eligible employees, eligible retirees, their spouses and dependents who participate in a postemployment health benefit plan by making contributions to, and accumulating assets in, a segregated fund, established hereunder, for postemployment health benefits ("Trust"); and

WHEREAS, the Authority intends that the income accruing on contributions made by the Authority to the Trust be exempt from federal income tax pursuant to Section 115 of the Code; and

WHEREAS, the Authority intends that contributions to, and benefit payments from, the Trust on behalf of eligible employees, eligible retirees, their spouses and dependents be excludable from the income of such individuals to the extent permitted under applicable provisions of the Code;

NOW, THEREFORE, the parties agree as follows:

**Definitions**

Definitions. For the purposes of this Trust Agreement, the following terms shall have the meanings set forth below, unless otherwise expressly provided.

"Dependent" means an individual who is considered a dependent Eligible for benefits under the terms of the Plan as approved by resolution or policy of the Authority, or as required by law, including:

an Employee or Retiree's Spouse;

an Employee or Retiree's Domestic Partner;

an Employee or Retiree's unmarried children (including stepchildren, foster children, legally adopted children; and children in a guardian-ward relationship) under the age of 23 who live with the Employee or Retiree or are away at school and are substantially dependent upon the Employee or Retiree for support and maintenance, or as otherwise set forth under the terms of the Plan.

"Domestic Partner" means, as set forth under the terms of the Plan, an Eligible Employee or Eligible Retiree's same-sex domestic partner, as defined under Chapter 246, P.L. 2003, The Domestic Partnership Act, or civil union partner, as required by law.



“Effective Date” means the date on which the Trust is created by Trustee’s acceptance of cash or other assets from the Authority.

“Eligible” means, with respect to any individual, meeting the requirements for eligibility pursuant to resolution or policy of the Authority and the terms of the Plan.

“Employee” means an individual who is an employee of the Authority and who is in a classification of employees who are Eligible or who may become Eligible to be a Retiree.

“Funding Vehicles” means one or more mutual funds or other investment options made available by Trustee hereunder.

“Participant” means an Eligible Employee, Eligible Retiree, Eligible Spouse or other Eligible Dependent for whom coverage is or will be provided under the terms of the Plan.

“Plan” means the postemployment health benefit plan approved by Authority Resolution on December 21, 2000, as it may be amended from time to time, that provides postemployment health benefit coverage, or any other postemployment welfare benefit plan, program or arrangement providing for sickness, accident, medical, disability or similar welfare benefits, through insurance or otherwise, in existence as of the Effective Date or later adopted by the Authority for the benefit of its Employees, Retirees, and their Spouses and Dependents.

“Retiree” means an individual who is a retired Employee of the Authority who is Eligible for benefits under the terms of the Plan.

“Spouse” means the Eligible Employee or Eligible Retiree’s lawful spouse as determined under the laws of the state in which the Eligible Employee or Eligible Retiree has his or her primary place of residence and the terms of the Plan. Where required by law, Spouse shall include a civil union partner.

“State” means the State of New Jersey.

“Trust” or “Trust Fund” means those assets, described in Section 2.1 of this Trust Agreement, held by Trustee at any time pursuant to this Trust Agreement.

### **Establishment of the Trust**

The Trust is hereby established as of the Effective Date for the exclusive benefit of Participants. The Trust Fund shall consist of the Funding Vehicles, any cash received by Trustee, any other assets held pursuant to the terms of this Trust Agreement, and any increments, proceeds, earnings and income to the above assets.

This Trust is intended to be a separate trust to accommodate funding of “other postemployment benefits” (“OPEB”) as described in Government Accounting Standards Board Statements Nos. 43 and 45 (“GASB 43 and 45”). Accordingly, as provided in this Trust Agreement, the assets of the Trust are dedicated to providing benefits to Participants and are legally protected from the creditors of the Authority and the Trustee.

The Trust Fund is not insured by the Federal Deposit Insurance Corporation (FDIC), is not a deposit or other obligation of Trustee and is not guaranteed by Trustee (except to the extent specifically set forth in particular Funding Vehicles). The value of the Trust Fund is subject to investment risks, including possible loss of principal.

### **Construction**

The Trust will be administered in the State of New Jersey, and its validity, construction, and all rights hereunder shall be governed by the laws of the State of New Jersey except to the extent preempted by Federal law. All contributions to the Trust Fund shall be deemed to occur in New Jersey.

Pronouns and other similar words used herein in the masculine gender shall be read as the feminine gender where appropriate, and the singular form of words shall be read as the plural where appropriate.

If any provision of this Trust Agreement shall be held illegal or invalid for any reason, such determination shall not affect the remaining provisions, and such provisions shall be construed to effectuate the purpose of this Trust.

The Plan shall govern eligibility for benefits and the terms and conditions of payment for benefits out of assets held in the Trust.

### **Contributions**

The Authority shall contribute to the Trust such amounts as it determines, in its sole discretion.

Subject to Section 2.1, the Authority's contributions under the Plan, all investment income and realized and unrealized gains and losses, and forfeitures allocable thereto will be held in trust for the exclusive benefit of Plan Participants.

Trustee shall receive all contributions paid or delivered to it hereunder and shall hold, invest, reinvest and administer such contributions pursuant to this Trust Agreement, without distinction between principal and income. Trustee shall not be responsible for the calculation or collection of any contribution to the Trust.

No amount in any account maintained under this Trust shall be subject to transfer, assignment, or alienation, whether voluntary or involuntary, in favor of any creditor, transferee, or assignee of the Authority, Trustee, or any Plan Participant.

The discontinuance of contributions to the Trust shall not automatically terminate the Trust. Trustee shall continue to administer the Trust in accordance with this Trust Agreement until its obligations are discharged and satisfied.

### **Benefits**

Benefits shall be paid to Participants pursuant to the terms of the Plan.

Trustee shall make distributions from the Trust as directed, in writing, by the Authority for the purpose of reimbursing the Authority or its agent for the payment of benefits under the Plan. Pursuant to the Authority's direction, the Trustee may directly pay such amounts to a vendor or service provider designated by the Authority, or may reimburse the Authority for insurance premiums or other payments expended or to be expended for permissible benefits under the Plan.

### **General Duties**

It shall be the duty of Trustee to hold title to and custody of assets held in respect of the Plan in Trustee's name as directed by the Authority.

Trustee is authorized to take any action set forth below with respect to the Trust:

Accept instructions from the Authority regarding the allocation, distribution or other disposition of the assets of the Trust and all matters relating thereto;

Cause any portion or all of the Trust to be issued, held, or registered in the individual name of Trustee, in the name of its nominee, in an affiliated securities depository, or in such other form as may be required or permitted under applicable law (however, the records of Trustee shall indicate the true ownership of such property);

Employ such agents and counsel, including legal counsel, as Trustee reasonably determines to be necessary to manage and protect the assets held in the Trust and to pay such agents and counsel their compensation from the Trust Fund unless such compensation is otherwise paid by the Authority;

Commence, maintain, or defend any litigation necessary in connection with the administration of the Trust, except that Trustee shall not be obligated to do so unless it is to be indemnified to its satisfaction against all expenses and liabilities sustained or anticipated by reason thereof;

Hold part or all of the Trust uninvested as may be necessary or appropriate in cash;

Take the following action with respect to proxies: (i) forward to the Authority, for exercise, all proxies solicited in regard to mutual funds and common or collective investment funds, if applicable; (ii) vote all proxies on behalf of the Plan and in accordance with the instructions provided by the Authority; and (iii) abstain from voting proxies that are not returned by the Authority; and

Take all other acts necessary for the proper administration of the Trust.

### **Investments**

i) The Authority has the sole and absolute discretion over the investment of assets held in the Trust and shall have full responsibility for the selection of the Funding Vehicles and the management, disposition, and investment of the Plan assets held in the Trust Fund;

Plan contributions or other assets received by Trustee shall be allocated among the Funding Vehicles in accordance with written instructions from the Authority;

Trustee does not warrant or guarantee the performance of any Funding Vehicles selected by the Authority; and

The Authority may, in its discretion, appoint one or more investment managers to direct the investment of all or a portion of the Trust Fund.

Trustee shall comply with written instructions from the Authority concerning assets in the Trust, subject to restrictions, if any, imposed by the Funding Vehicles and the operation of any securities markets.

Trustee shall not be responsible or liable for any loss or expense which may arise from or result from compliance with any written direction from the Authority to purchase any assets. Trustee shall be responsible or liable for any loss or expense which may arise from or result from its failure to comply with a written direction from the Authority.

Notwithstanding any provision in this Agreement to the contrary, assets of the Trust may be used to pay reasonable expenses of the Trust, as described in Section 6.2(c), 9.1(b) and 9.2 as certified by the Authority to the Trustee, to the extent not otherwise paid by the Authority.

At no time prior to termination of the Trust shall any part of the Trust Fund be used for or diverted to purposes other than for the exclusive benefit of Participants under the terms of the Plan and for defraying the reasonable expenses of administering the Trust.

### **Accounting**

Trustee shall maintain accurate records and detailed accounts of all investments, receipts, disbursements, earnings, and other transactions related to the Trust, and those records shall be available at all reasonable times to the Authority and its independent auditor. Trustee shall provide such reports to the Authority at mutually agreeable times.

The Authority may conduct an independent audit of the Trust Fund at least annually. The Authority may engage an independent auditor of its own choosing to assist in or conduct the audit. The Authority shall have the right at all reasonable times during the terms of the Trust and for three (3) years after the termination of the Trust to examine documents of Trustee relating to the Trust and Trustee's performance hereunder.

### **Miscellaneous Provisions**

ii) Until advised to the contrary by the Authority, Trustee shall consider the Trust to be exempt from federal, state, local and foreign income taxes. However, if Trustee has reason to believe that such exemption does not or ceases to apply, Trustee shall notify the Authority of its belief, in writing. Trustee shall not be responsible for filing any federal, state, local or foreign tax or information returns relating to the Plan or the Trust other than information returns required as a result of any distribution from the Trust.

Trustee shall promptly notify the Authority of any taxes levied upon or assessed against the Trust. If the Authority wishes to contest the tax assessment, it must give appropriate written instructions to Trustee within thirty (30) days of notification. If Trustee does not receive written instructions within thirty (30) days of notification, Trustee will pay the tax from the Trust.

The Authority may be reimbursed from the Trust for reasonable out-of-pocket expenses and other cash expenditures it incurs that are directly related to the administration of the Plan and/or the Trust. All such expenses, including, without limitation, reasonable fees of accountants and legal counsel to the extent not otherwise reimbursed, shall constitute a charge against and shall be paid from the Trust upon the direction of the Authority.

Neither Trustee nor any affiliate thereof shall be required to give any bond or to qualify before, be appointed by, or account to any court of law in the exercise of its powers hereunder.

To the extent permitted by applicable law, neither Trustee nor the Authority shall be liable for any failure or delay in the performance of its obligations under this Trust Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; epidemics; riots; and acts of civil or military authority or government actions.

In performing its responsibilities under this Agreement, Trustee may enter into agreements and share information with its affiliates.

Failure of either party to insist upon strict compliance with any of the conditions of this Trust Agreement shall not be construed as a waiver of any of such conditions, but the same shall remain in full force and effect. No waiver of any provision of this Trust Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

Unless the context clearly indicates to the contrary, a reference to a statute, regulation, document, or provision shall be construed as referring to any subsequently enacted, adopted, or re-designated statute or regulation or executed counterpart.

### **Amendment and Termination**

This Trust Agreement may be amended at any time by written agreement signed by the Authority and Trustee, provided that such amendment shall not operate to violate any applicable law or regulation.

The Authority reserves the right to terminate the Plan or its participation in the Plan at any time. Upon such termination, the applicable part of the Trust shall be distributed by Trustee in accordance with directions from the Authority for the purpose of providing permissible benefits. Trustee is under no obligation to review written instructions from the Authority for compliance with the Plan. From the date of termination of the Plan until the final distribution of the Trust Fund, Trustee shall continue to have all the powers provided under this Trust Agreement with respect to the assets of the Plan held in the Trust.

Trustee may resign at any time after providing written notice to the Authority at least ninety (90) days in advance of the effective date of the resignation. The Authority may remove Trustee by delivery of written notice, to take effect at a date specified therein, which shall not be less than thirty (30) days after the delivery of such written notice to Trustee, unless Funding Vehicle provisions specify otherwise. Notwithstanding the foregoing, Trustee may retain its responsibilities per the terms of this Trust Agreement over assets remaining with Trustee beyond the thirty (30) day timeframe, concurrent with Funding Vehicle provisions.

Upon termination of the Trust, and after the satisfaction of outstanding liabilities under the Plan to provide benefits and pay reasonable expenses, the assets of the Trust shall be applied toward the provision of sickness, accident, medical, disability or similar welfare benefits through another trust or otherwise, as the Authority appropriately directs with the intent that all income on such assets be exempt from tax under Section 115 or other applicable section of the Code.

### **Successor Trustees**

Upon resignation or removal of Trustee, the Authority shall appoint a successor trustee and the Authority shall provide Trustee with written notice of such appointment. Trustee shall transfer the assets of the Trust to such successor, and shall otherwise reasonably cooperate with the successor trustee to ensure a smooth transition of the Trust Fund.

If either party has given notice of termination of the relationship and upon the expiration of the advance notice period, no party has accepted an appointment as successor, Trustee will have the right to commence an action to deposit the assets of the Trust in a court of competent jurisdiction in the State of New Jersey for administration until a successor may be appointed and accepts the transfer of the assets.

### **Limited Effect of Plan and Trust**

Subject to applicable law, neither the establishment of the Plan nor the Trust, nor any modification thereof, the creation of any fund or account, nor the payment of any benefits, shall be construed as giving to any person covered under the Plan or other person any legal or equitable right against Trustee or the Authority or any right to benefits under the Plan, except as may otherwise be expressly provided in the Plan or in this Trust Agreement.

### **Protective Clause**

Neither the Authority nor Trustee shall be responsible for the validity of any contract of insurance or other arrangement maintained in connection with the Plan, or for the failure on the part of the insurer or provider to make payments provided by such contract, or for the action of any person which may delay payment or render a contract void or unenforceable in whole or in part.

**IN WITNESS WHEREOF**, the Authority and Trustee have executed this Trust Agreement by their respective duly authorized officers, as of the date first hereinabove mentioned.